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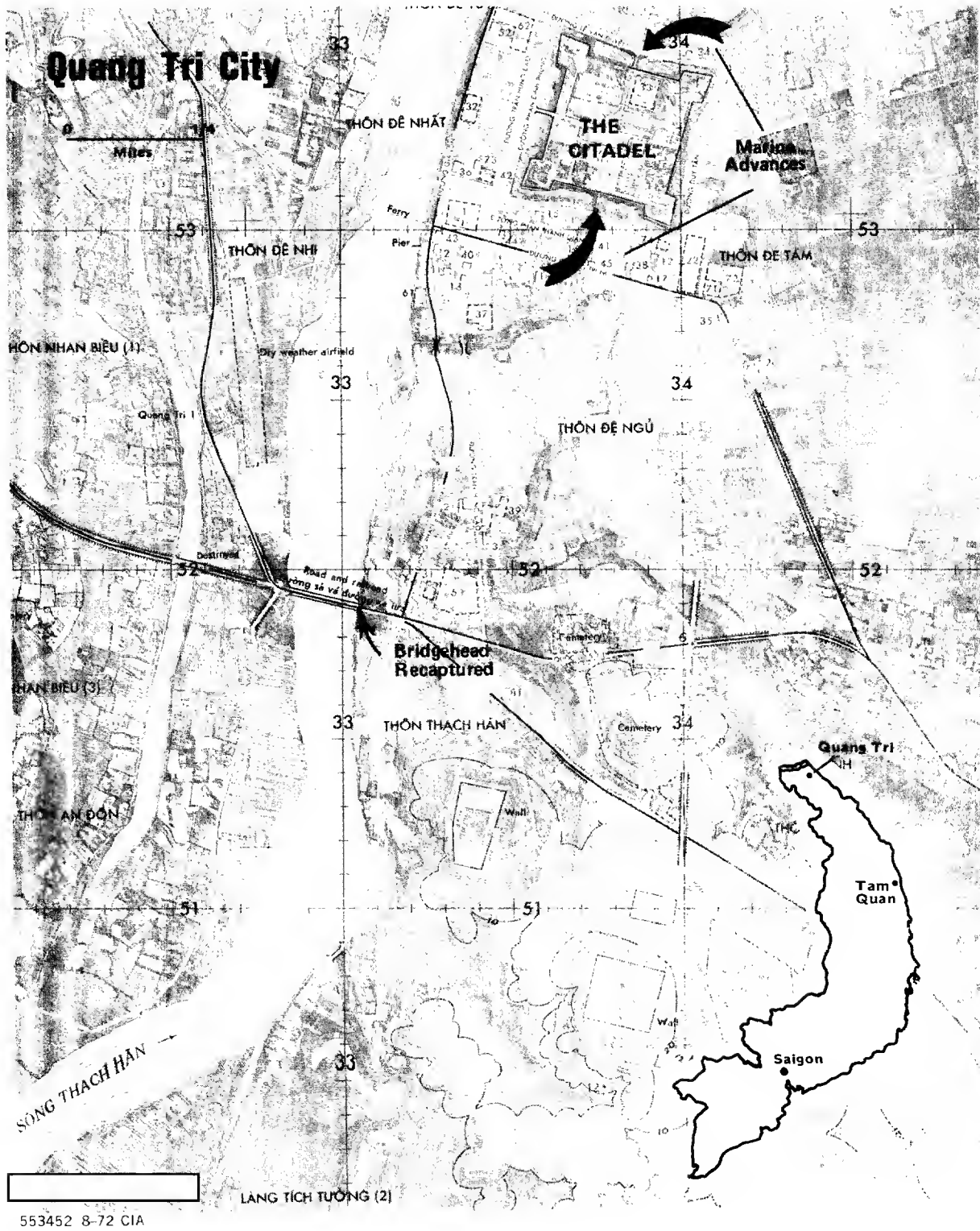
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SOUTH VIETNAM: The Communists are maintaining pressure against government positions in Quang Tri City, but South Vietnamese forces have gained some ground.

South Vietnamese Marines captured a key bridgehead in the southern sector of the city and were nearing both the northern and southern walls of the citadel on 9 August. Heavy enemy artillery shelling, reportedly including the use of tear gas rounds, continues to slow clearing operations.

Scattered enemy ground actions and shellings persist in Thua Thien Province and also farther south in Pleiku, but no new major fighting has been reported. Late reports indicate that the Communists attacked the Tam Quan district capital in northern Binh Dinh Province yesterday. Tam Quan had been the only one of three recently recaptured district capitals in Binh Dinh still under firm government control.

* * * *

Saigon publishers and some independent political figures are bitter over President Thieu's promulgation of a new press decree last week. The decree, which is designed to reduce the number of papers published in the country, requires journals to put up substantial "insurance deposits" to guarantee the payment of any fines levied against them by the government. Many Saigon journals, including most opposition papers, are not expected to be able to come up with the necessary funds and therefore probably will be forced off the streets.

Some publishers reportedly have met and discussed plans for protest actions, including even the possibility of self-immolations and mass suicides by the families of journalists, if the government does not modify the decree. Prominent independent politicians are complaining to the US

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C Embassy that Thieu is leading the country into a new "Diem-type" dictatorship and are threatening to join the opposition.

The complaints of publishers and politicians about the press decree seem likely to remain largely talk, because there appears to be little that they can or will do to change the situation. In public, most of them have reacted fairly cautiously. If some independent politicians remain alienated over this issue, however, it could cause difficulties for Thieu, particularly in his relations with the National Assembly.

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THAILAND-CHINA: Bangkok is preparing for wide-ranging political discussions with the Chinese in connection with the forthcoming visit of a Thai ping-pong team to Peking.

Although the government is stating publicly that the Peking activities will be limited to sports,

[REDACTED]

Bangkok is prepared to move quickly toward improving relations with Peking.

[REDACTED]

Bangkok is prepared to state that Taiwan is a part of China and that Peking is the sole legitimate government of China. This [REDACTED]

[REDACTED] in effect clears the way for the establishment of diplomatic ties between the two countries.

The Thai will seek some assurance that the Chinese will not use their presence in Thailand to foment anti-government sentiment in the country's large ethnic Chinese community. Apprehension on this subject has long colored the Thai attitude toward establishing ties with Peking.

[REDACTED]

(continued)

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The Chinese are certain to see Bangkok's new formulation on the Taiwan issue as an indication of Thai seriousness in pursuing better relations, and they are likely to respond positively. There are signs that Peking is considering an improvement of relations with nearly all the states of South-east Asia. Thailand seems no exception, and Peking could well make at least some gesture on the insurgency question. The Indochina war--and Thailand's part in it--remains a problem for the Chinese, however, and they are unlikely to enter into formal relations with Bangkok without some kind of Thai assurances that US forces in the country will in time be reduced at least to pre-1964 levels. [REDACTED]

[REDACTED]

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LIBYA: Government officials and other members of the Libyan elite are privately expressing strong opposition to the union with Egypt, which they view as solely serving Qadhafi's personal ambitions.

They believe Libya may lose its national identity and will only gain Egypt's enormous debts and its poor and landless citizens. [REDACTED]

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[REDACTED] none of the civilian ministers in the recently named cabinet was consulted about Qadhafi's unity proposal and many of them regret accepting posts in the new government. Moreover, they feel that Prime Minister Jallud seriously deceived them by promising a close working relationship between the cabinet and the Revolutionary Command Council (RCC). Middle-level bureaucrats, who resent working with Egyptian advisers, are particularly bitter because they fear that their jobs will soon be in jeopardy.

The average Libyan's reaction to the "union" proclamation was one of relief that complete unity is not scheduled to take place until 1 September 1973. The Libyans, who universally fear Egyptian absorption, are particularly concerned about the announcement that Egyptian and Libyan citizens will have equal property and working rights in both countries. Although the usual summer lethargy has temporarily overcome local fears, anxieties will revive swiftly if measures to implement some aspects of the union get under way quickly.

Despite the strength of popular opposition to the union, only Qadhafi's colleagues in the RCC could seriously affect Libya's commitment to eventual merger. Qadhafi apparently was able to override some council members' serious reservations about closer ties with Egypt. They may have gone along with the unity proposal in an attempt to postpone Qadhafi's plans to phase out the RCC and

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replace it with a presidential form of government. Whatever their motives for accepting the union scheme, some council members probably worked with their Egyptian counterparts to gain a year's lead time in hopes that they can influence the course of events in the coming months. [REDACTED]

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PAKISTAN-BANGLADESH: President Bhutto's decision not to recognize Bangladesh was probably made primarily because of his domestic political situation.

Bhutto publicly claimed that recognition was impossible because Sheik Mujib refuses to meet him. The President may well be more concerned that recognition, unless accompanied by Bengali concessions on such things as trying Pakistanis for war crimes, would be unpopular with significant segments of the population, including members of Bhutto's own party. In addition, the increasingly active opposition parties could exploit recognition to increase their popular support at a time when Bhutto's government is under attack on other issues.

Bhutto also asserted that the Chinese will veto Bangladesh's request to be admitted to the UN. In recent weeks, Peking has appeared to be moving in the direction of a veto, and it is unlikely that Bhutto would have made his statement without some assurance that Peking would back him up. [REDACTED]

[REDACTED]

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JAPAN: Tokyo has approved only a modest supplement to this year's public investment budget so far.

The \$850-million increase approved this week is substantially less than last year's \$2.5-billion supplement and may indicate that Prime Minister Tanaka is steering a middle course between the viewpoints of the two powerful economic ministries. The Ministry of International Trade and Industry believes that economic recovery is not firmly enough established yet and that increased public investment is warranted. Moreover, it believes such spending will help boost imports and help reduce pressure for another yen revaluation. The Ministry of Finance, on the other hand, argues publicly that the economy is rebounding well enough without further large boosts in public spending and that the spending would prove highly inflationary.

Central government spending to improve public facilities and general living conditions has increased rapidly during the past three years. By the end of the current budget year next April such spending will have grown by at least 85 percent over the 1969 level, reaching a total of over \$19 billion. This growth reflects both public demand for improved living conditions and an increased use of fiscal policy to bring Japan out of its longest post-war recession. The latest supplement will be used for improving public water services, sewerage, housing, roads and welfare facilities. Additional investment allocations could be made before the fiscal year ends in April, perhaps timed to boost the ruling party's popularity before Prime Minister Tanaka calls for general elections. [REDACTED]

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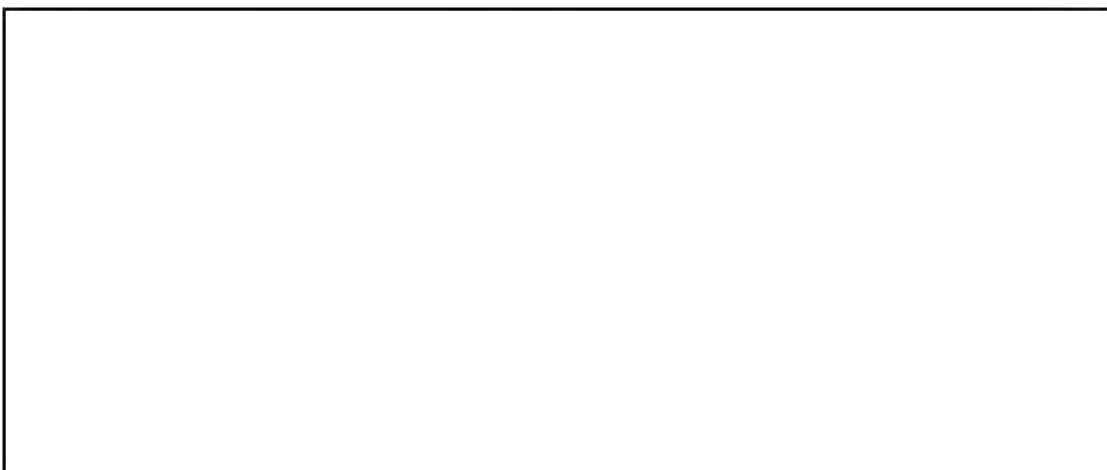
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IRAN: Increasing terrorist activity during the traditionally quiet student vacation period indicates that the guerrillas are becoming better organized and are broadening their appeal to non-student groups.



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The upsurge in terrorism is a comparatively recent phenomenon in Iran, where there are probably no organized subversive groups of any size. During the past few years small terrorist groups have banded together under a variety of names, but have lacked the numbers, organization, or permanence to cause any real concern. Newspaper accounts have described those captured as students or lower class workers. Many of the captured terrorists have been expatriate Iranians trained in Iraq and infiltrated back into the country.

Although the terrorists are an irritant and embarrassment to the regime, they as yet pose no direct threat despite the government's apparent inability to suppress them.

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